Revenue Estimates

After accounting for transfers such as to the Rainy Day Fund, General Fund revenues under the May Revision forecast are higher than at the Governor's Budget by $700 million in 2013-14, $3.3 billion in 2014-15, and $1.7 billion in 2015-16. Excluding transfers and the revenue loss associated with the proposed Earned Income Tax Credit, revenues are $6.7 billion higher over these years. Figure REV-01 compares the revenue forecasts, by source, in the Governor's Budget and the May Revision. Total May Revision revenue, including transfers, is projected to be $111.3 billion in 2014-15 and $115 billion in 2015-16.

The economic forecast has improved somewhat since the Governor's Budget. The improved economic forecast, along with the strong cash trends through April support the significant increase in revenues. On net, cash tax receipts are up about $3.2 billion over the forecast through the end of April. Cash data through April suggest that personal income tax receipts are up about $2.7 billion, corporation tax receipts are up almost $250 million, and sales and use tax (sales tax) receipts are up $230 million.

A cash surplus or shortfall can have different effects on the revenue forecast for all three open revenue years, depending on the source of the cash and other factors such as accruals.

Figure REV-01
2015-16 May Revision
General Fund Revenue Forecast
(Dollars in Millions)

Source	Governor's Budget	May Revision	Change	
Fiscal 13-14: *Final*				
Personal Income Tax	$66,560	$67,025	$466	0.7%
Sales and Use Tax	22,263	22,263	0	0.0%
Corporation Tax	8,858	9,093	234	2.6%
Insurance Tax	2,363	2,363	0	0.0%
Alcoholic Beverage	354	354	0	0.0%
Cigarette	86	86	0	0.0%
Other Revenues	1,813	1,814	0	0.0%
Subtotal	**$102,298**	**$102,998**	**$700**	0.7%
Transfers	376	376	0	0.0%
Total	**$102,675**	**$103,375**	**$700**	0.7%
Fiscal 14-15				
Personal Income Tax	$71,699	$75,384	$3,686	5.1%
Sales and Use Tax	23,438	23,684	246	1.0%
Corporation Tax	9,618	9,809	191	2.0%
Insurance Tax	2,490	2,486	-4	-0.2%
Alcoholic Beverage	367	353	-14	-3.7%
Cigarette	84	84	0	0.0%
Other Revenues	1,954	1,556	-398	-20.4%
College Access Transfer	600	4	-596	
Subtotal	**$110,250**	**$113,361**	**$3,110**	
Other Transfers [/1]	-2,208	-2,054	154	-7.0%
Total	**$108,042**	**$111,307**	**$3,265**	3.0%
Fiscal 15-16				
Personal Income Tax	$75,213	$77,700	$2,487	3.3%
Sales and Use Tax	25,166	25,240	74	0.3%
Corporation Tax	10,173	10,342	168	1.7%
Insurance Tax	2,531	2,556	26	1.0%
Alcoholic Beverage	374	360	-14	-3.7%
Cigarette	82	82	0	0.0%
Other Revenues	1,594	1,652	59	3.7%
College Access Transfer	350	100	-250	
Subtotal	**$115,482**	**$118,031**	**$2,549**	2.2%
Other Transfers [/1]	-2,102	-2,999	-897	42.7%
Total	**$113,380**	**$115,033**	**$1,653**	1.5%
Three-Year Total (including BSA transfer)			**$5,617**	

Note: Numbers may not add due to rounding.

[/1] Includes transfers to Budget Stabilization Account for 2014-15 and 2015-16.

- Personal income taxes are higher by $466 million in 2013-14, $3.3 billion in 2014-15, and $2.3 billion in 2015-16 due to strong withholding growth, as well as growth in capital gains and partnership income.
- Corporation taxes are higher by $234 million in 2013-14, $60 million in 2014-15, and $100 million in 2015-16 due to strong cash trends.
- In addition to the changes described above, lower utilization of the College Access Tax Credit increases personal income tax and corporation tax receipts by several hundred million dollars (offset by a similar decrease to General Fund transfers).
- Sales tax receipts are higher by $246 million in 2014-15 and $74 million in 2015-16. Much of the current-year revenue gain is attributable to lower utilization of the recent manufacturing sales tax exemption in the first two quarters of 2014-15.

Long-Term Forecast

The May Revision economic forecast reflects steady growth over the next four years. The projected average growth rate in U.S. real gross domestic product over the next four years is 2.6 percent. While the forecast does not project a recession, the current expansion has already exceeded the average post-war expansion by over a year.

Figure REV-02 shows the forecast for the largest three General Fund revenues from 2013-14 through 2018-19. Total General Fund revenue from these sources is expected to grow from $98.4 billion in 2013-14 to $123.5 billion in 2018-19. The average year-over-year growth rate over this period is 4.8 percent.

Figure REV-02

Long-Term Revenue Forecast - Three Largest Sources

(General Fund Revenue - Dollars in Billions)

	2013-14	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**Average Year-Over-Year Growth**
Personal Income Tax	$67.0	$75.4	$77.7	$81.7	$84.7	$84.2	4.7%
Sales and Use Tax	$22.3	$23.7	$25.2	$25.8	$25.9	$27.1	4.0%
Corporation Tax	$9.1	$9.8	$10.3	$11.1	$11.7	$12.2	6.1% #NUM!
Total	**$98.4**	**$108.9**	**$113.3**	**$118.5**	**$122.2**	**$123.5**	4.8%
Growth	6.1%	10.7%	4.0%	4.6%	3.2%	1.0%	

Note: Numbers may not add due to rounding.

Earned Income Tax Credit

The May Revision proposes an Earned Income Tax Credit to help the poorest working families in California. This targeted Earned Income Tax Credit would provide a refundable tax credit for wage income, and would focus on the lowest income Californians—households with income less than $6,580 if there are no dependents or less than $13,870 if there are three or more dependents. The proposed state program complements the existing federal Earned Income Tax Credit. The proposed state credit would match 85 percent of the federal credits up to half of the federal phase-in range and then begin to taper off relative to these maximum wage amounts. This targeted approach will allow a greater benefit per household. The credit will be available beginning with tax returns filed for wages earned in 2015. The tax credit is expected to reduce revenues by $380 million annually beginning in 2015-16. It will benefit an estimated 825,000 families and 2 million individuals. The estimated average household benefit is $460 per year, with a maximum credit of $2,653.

Personal Income Tax

Compared to the Governor's Budget, the personal income tax forecast is higher by $466 million in 2013-14, $3.3 billion in 2014-15, and $2.3 billion in 2015-16. Over the three-year period, the personal income tax forecast reflects a total increase of $6.1 billion. In addition, the lower utilization of the College Access Tax Credit increases personal income tax receipts and reduces the General Fund transfer.

The forecast reflects an increase in wages based on withholding levels that continue to be very strong. Through April, withholding is up nearly 6 percent from 2014—a year when withholding growth was near 10 percent. Withholding growth significantly outpaced wage growth in 2014, suggesting that a higher share of the wage gains have gone to high-income earners who pay higher tax rates.

Based on 2013 tax return data, partnership income was stronger than had been anticipated and is expected to grow over the next few years. In addition, lower interest rates have decreased mortgage interest deductions. Since deductions reduce taxable income, a lower forecast for deductions increases the revenue forecast.

Capital gains increased in 2014 due to strong cash receipts related to 2014 tax liability. The sustained strong performance of the stock market over the past several years is expected to lead to continued above-normal capital gains through 2016 because some of the gains that individual taxpayers accrued during these years will be realized in 2015 and 2016. Specifically, capital gains income was revised up from $115 billion to $120 billion in 2014, $103 billion to $116 billion in 2015, and $98 billion to $109 billion in 2016. The forecast assumes capital gains return to normal levels in relation to personal income by 2017—one year later than was previously estimated. Preliminary actual capital gains income in 2013 was $79 billion compared to the $80 billion forecast.

The personal income tax forecast includes Proposition 30 revenues, which are estimated at $6.6 billion in 2014-15 and $6.7 billion in 2015-16.

Sales and Use Tax

The sales tax forecast reflects an increase of $246 million in 2014-15 and $74 million in 2015-16. This includes Proposition 30 revenues totaling $1.5 billion in 2014-15 and $1.6 billion in 2015-16.

The increase in the sales tax forecast is largely due to lower than estimated utilization of the manufacturing exemption credit and higher wages.

Corporation Tax

The corporation tax forecast reflects an increase of $234 million in 2013-14, $60 million in 2014-15, and $100 million in 2015-16. Lower utilization of the College Access Tax Credit increases corporation tax receipts and reduces the General Fund transfer.

Compared to the Governor's Budget, the revenue increase in 2013-14 and 2014-15 can be attributed mainly to higher cash receipts through April 2015.

Insurance Tax

The insurance tax forecast reflects a decrease of $4 million in 2014-15 and an increase of $26 million in 2015-16. The revenue changes are primarily due to a lower refund estimate related to a Board of Equalization decision in the *California Automobile Insurance Company* case.

Loan Repayments to Special Funds

The Governor's Budget reflected repayment of loans based on the operational needs of various special fund programs and Proposition 2's dedicated funding stream for reducing debts and liabilities. The May Revision includes an increase of $537 million in loan repayments to special funds in 2015-16. This is a result of the increased debt payment requirement imposed by Proposition 2 reflecting an increase in forecasted revenues and capital gains since the Governor's Budget.

Property Tax

The May Revision estimates statewide property tax revenues will increase 6.14 percent in 2014-15 and 5.52 percent in 2015-16, which is slightly higher than the respective 6.1-percent and 5.25-percent growth rates estimated at Governor's Budget. Roughly 41 percent ($16.7 billion) will go to K-14 schools in 2015-16. While this includes $1 billion that schools are expected to receive pursuant to the dissolution of the redevelopment agencies, it excludes $409 million shifted from schools to cities and counties to replace sales and use tax revenues redirected from those entities to repay the Economic Recovery Bonds. It also excludes the $7.2 billion shifted to cities and counties to replace Vehicle License Fee (VLF) revenue losses stemming from the reduced VLF rate of 0.65 percent.